

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 21st Floor
San Francisco, California 94105**

RH03026746

June 23, 2005

INITIAL STATEMENT OF REASONS

**Section 8 Limited Assignment Distribution Procedure
California Automobile Assigned Risk Plan**

PURPOSE OF THE REGULATION

Pursuant to California Insurance Code Section 11624, California Insurance Commissioner John Garamendi will hold a public hearing regarding the recommendation of the California Automobile Assigned Risk Plan ("CAARP") to amend the Limited Assignment Distribution (LAD) Procedure.

NECESSITY OF REGULATION

The current CAARP LAD procedure is not consistent with the Low Cost Auto LAD procedure. This proposal updates and makes consistent current CAARP Plan of Operations LAD procedures and the California Low Cost Automobile Insurance Program LAD procedures. In order to ensure consistency between the CAARP LAD and Low Cost Auto LAD programs the two regulations will mirror the other except where the language is specific to CAARP or Low Cost Auto.

Section 8 B. Limited Assignment Distribution Procedure

Existing Section 8 B on Limited Assignment Distribution (LAD) Procedures in the current Plan of Operations sets forth general eligibility requirements for a servicing carrier to buy-out an insurers CAARP insurance quota. It does not specify premium to surplus ratios or certain other criteria or conditions under which certain criteria may be waived. Also, it does not provide for a monitoring and remedial process by the Plan manager to ensure continuing eligibility. Proposed amendments fill in these gaps. Under the proposed revisions a servicing company must increase its statutory capital and surplus from \$10,000,000 to \$25,000,000, maintain a net premium to surplus ratio that does not exceed 3 to 1, maintain a financial rating of A- or better and comply with the requirements of the Plan and applicable regulations. The amendments propose that the Plan review the eligibility of a servicing company annually to ensure it continues to meet requirements. If not the Plan shall notify the servicing company and recommend remedies. Adopting these proposals is necessary to clarify initial and continuing requirements ensuring that a servicing company understands its obligations.

The current Plan of Operations does not address the termination of a servicing company. The proposed revisions clarify assignment procedures and if a servicing company is terminated. Under the proposed revisions, a buy-out company will be temporarily excused for a period of 90 days from receiving program assignments, although its quota continues to accrue, to permit time to obtain another buy-out arrangement or prepare to handle its own assignments. The rationale

for this proposal is to clarify assignment and quota obligations of a servicing company and buy-out companies

IDENTIFICATION OF STUDIES

The proposed changes rely upon the expertise of CAARP's Advisory Committee. Other than the proposed changes no studies have been submitted for this proceeding.

SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT

Adoption of the proposed changes would not mandate the use of specific technologies or equipment.

REASONABLE ALTERNATIVES

The Commissioner invites public comments on the proposed changes and reasonable alternatives which would be as effective to carry out the proposed changes.

ECONOMIC IMPACT ON BUSINESS

The Commissioner has initially determined that the proposed changes will not have a significant adverse economic impact on businesses. The Commissioner invites interested parties to comment on whether the proposed changes will have a significant adverse economic impact on business.